Homework #6: Chapter 8
Saving, Investment, and the Financial System

Use the saving and investment identities from the National Income Accounts to answer the following questions. Suppose the following values are from the national income accounts of a country with a closed economy (i.e. NX=0).

\[ Y = 6000 \]
\[ T = 1000 \]
\[ C = 4000 \]
\[ G = 1200 \]

1. What is the value of saving and investment in this country?

2. What is the value of private saving?

3. What is the value of public saving?

4. Is the government’s budget policy contributing to the growth in this country or harming it? Why?

Multiple Choice Questions

5. Which of the following is an example of equity finance?
   a. corporate bonds
   b. municipal bonds
   c. stock
   d. bank loan
   e. All of the above are equity finance.

6. Credit risk refers to a bond’s
   a. term to maturity.
   b. probability of default.
   c. tax treatment.
   d. dividend.
   e. price-earnings ratio.
7. If the public consumes $100 billion less and the government purchases $100 billion more (other things unchanged), which of the following statements is true?
   a. There is an increase in saving and the economy should grow more quickly.
   b. There is a decrease in saving and the economy should grow more slowly.
   c. Saving is unchanged.
   d. There is not enough information to determine what will happen to saving.

8. If Americans become more thrifty, we would expect
   a. the supply of loanable funds to shift to the right and the real interest rate to rise.
   b. the supply of loanable funds to shift to the right and the real interest rate to fall.
   c. the demand for loanable funds to shift to the right and the real interest rate to rise.
   d. the demand for loanable funds to shift to the right and the real interest rate to fall.

9. Which of the following sets of government policies is the most growth oriented?
   a. lower taxes on the returns to saving, provide investment tax credits, and lower the deficit.
   b. lower taxes on the returns to saving, provide investment tax credits, and increase the deficit.
   c. increase taxes on the returns to saving, provide investment tax credits, and lower the deficit.
   d. increase taxes on the returns to saving, provide investment tax credits, and increase the deficit.

10. If the supply of loanable funds is very inelastic (steep), which policy would likely increase saving and investment the most?
   a. an investment tax credit
   b. a reduction in the budget deficit
   c. an increase in the budget deficit
   d. none of the above.